



Required Report - public distribution

Date: 10/14/2003

GAIN Report Number: CH3823

China, Peoples Republic of

Exporter Guide

Annual

2003

Approved by:
Ross Kreamer
U.S. Consulate

Prepared by:
Ralph Bean

Report Highlights:

In 2002, China imported over \$10.5 billion worth of agricultural products, of which roughly 25% was imported from the U.S. As incomes continue to rise, imports are also likely to continue. Processed and RTE foods continue to gain ground as wealthy urban consumers seek new ways to save time. Younger, more consumption-oriented Chinese are also starting to have more impact as they join the work force.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Shanghai ATO [CH2]
[CH]

Table of Contents

Section I. Market Overview	3
I.1. Economic Situation.....	3
I.2. Demographic Developments.....	3
I.3. Consumer Buying Habits.....	3
I.4. Consumer Foods Market Size and Growth.....	4
I.5. Advantages and Challenges Facing U.S. Suppliers of Food Products to China.....	5
Section II. Exporter Business Tips	5
II.1. Local Business Customs.....	5
II.2. Consumer Tastes.....	6
II.3. Regulatory Framework.....	7
Section III. Market Sector Structure and Trends	7
III.1. Food Retail.....	7
III.2. Hotel, Restaurant and Institutional (HRI).....	8
Section V. Key Contacts and Further Information	10
Appendix 1. Statistics	11

Section I. Market Overview

I.1. Economic Situation

Despite the impact of SARS and the global economic downturn, China's economy continues to grow at an estimated rate of 8%. Maintaining high growth rates continues to be the government's top priority. This has been supported by high levels of foreign direct investment and continued growth in exports. Long term growth is likely to continue, particularly in 2005, when China will allow 100% foreign ownership of enterprises in China. It should be noted that, while China has a large trade surplus with the United States, its overall balance of trade is only slightly positive; China runs deficits with some of its other trading partners, such as Japan. Concerns about the economy include the generally weak condition of China's banking system, and the possible emergence of a real-estate bubble in key cities such as Shanghai.

I.2. Demographic Developments

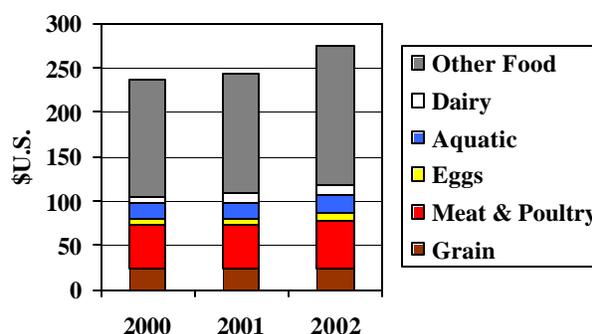
Although China has relaxed restrictions on the movement of rural residents, the largest cities continue to restrict employment and housing for unlicensed migrants. In addition, production costs in the major metropolitan areas have risen rapidly. The result has been a boom in the growth of second and third-tier cities across China, particularly in developed coastal areas such as Guangdong, Zhejiang and Jiangsu provinces. Many of these often-overlooked emerging city markets have populations in the millions, with average incomes that are rapidly approaching those of cities like Beijing, Shanghai or Guangzhou. For more information on emerging-city markets in East and Central China, see ATO's report [Emerging Markets in East and Central China](#) (CH3818).

Another important demographic element is the generational pattern to buying habits, centering on three distinct groups. While the older two generations (those born in 1946-1964, and those born 1965-1976) display certain differences, both are price sensitive and more conservative. The most recent generation of consumers (those born after 1976), however, have embraced a consumption-oriented lifestyle, and are much more willing to spend money and experiment with novel products and tastes. These consumers are gaining rapidly in importance, as they become income earners in their own right. Generational consumption patterns are examined in greater depth in ATO's report, [Market Generation: China's New Consumers](#) (CH2835).

I.3. Consumer Buying Habits

Total consumer expenditures increased by 5.8% in 2002, slightly faster than 2001. This is likely to slow somewhat in 2003, reflecting the impact of SARS, which led many consumers to shun crowded indoor malls and avoid travel for several months. The week-long May Day holiday was also cut short to discourage travelers. The impact on food spending was less clear. While wet markets and malls suffered considerably, smaller retail venues, particularly convenience stores, actually experienced an increase in sales. Likewise, while sales of meat and seafood

**Annual Food Expenditures
(Urban Households)**



Source: China National Statistical Bureau, 2003 Yearbook
Table 10-7

declined sharply, fruit and vegetable sales soared. Long-term consumption is expected to grow, supported by a combination of massive deficit spending on the part of the government, and policies that encourage home buyers, private car sales and domestic tourism.

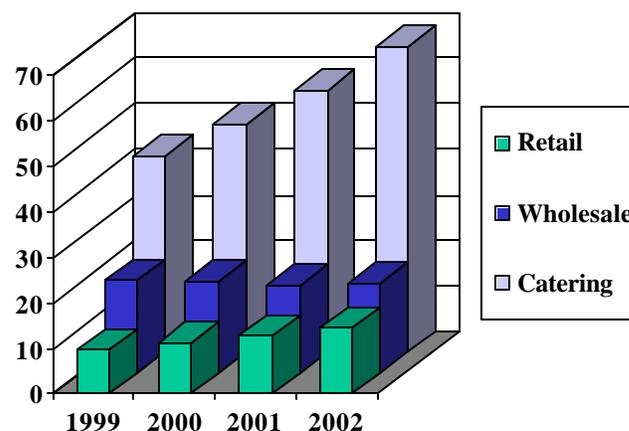
Generational distinctions aside, Chinese consumers tend to be conservative and price sensitive when it comes to personal spending. Exceptions to this rule include spending on education, medical care, gifts and entertainment, and children. The greatest successes for high-end U.S. food products have been those aimed at hotels and restaurants (seafood and beef, for example), and high-end products given as gifts (fresh fruit, wine and chocolate). Acceptance of imported products as high-quality is becoming more common, and U.S. products have benefited from a reputation for high quality.

I.4. Consumer Foods Market Size and Growth

The total value of the Chinese food market has continued to grow despite mild deflation in food prices (-2.6%, 0%, and -0.6% in 2000, 2001 and 2002, respectively). Combined wholesale, retail and catering sales, excluding tobacco and liquor, amounted to \$101.5 billion in 2002, according to official statistics.

In a nation where food is a national obsession, it is not surprising that the food sector is dominated by catering. Catering accounted for roughly 66% of the combined total. Note, however, that direct comparison of catering revenues with retail and wholesale food sales tends to give an exaggerated impression of the catering sector's size: catering revenues include revenues from liquor sales, among other things. The retail and catering sectors have grown quickly, while wholesale has stagnated. This reflects rapid development of modern retail formats and a growing trend in favor of dining out on the one hand, and consolidation and increased efficiency in wholesale markets on the other.

**Total Sales, by Sector
(value in \$billion)**



Source: China National Statistical Bureau, 2003 Yearbook
Tables 16-11 and 16-13

I.5. Advantages and Challenges Facing U.S. Suppliers of Food Products to China

Advantages	Challenges
Chinese consumers spend nearly half of their disposable income on food and beverages.	Chinese consumers are price-sensitive: imported products have difficulty competing with domestic substitutes on price.
Imported goods are generally regarded as high in quality	Imports are regarded as luxury goods: the vast majority of consumers do not believe they can afford them.
New markets for imported products are appearing in fast-growing cities throughout China.	Transportation and logistics for these cities remains difficult, and many lack the presence of a qualified distributor for imports.
Many U.S. brands, such as Budweiser, Coca-Cola, M&Ms and Pringles are widely recognized in China.	Most of the U.S. brands widely available in China are manufactured locally or in other parts of Asia.
Overseas fast-food chains are extremely popular, and provide exposure for foreign foods.	Foreign fast-food chains source most of their products locally.
Overseas retail chains are growing quickly, and carry more imported products than domestic counterparts.	Few of these chains import directly from overseas, working instead through distributors. Many charge high listing fees to promote new products.
Under WTO, China's duties on imported foods have fallen, and more products are shipped directly to China, instead of through Hong Kong.	Increased access for imports has resulted in greater competition from other exporting countries for products like beef, seafood and pistachios.
Food is an essential part of Chinese culture and social life. Key life events revolve around food, and little expense is spared.	The Chinese have very strong taste preferences. While they are willing to experiment, they are less willing to incorporate foreign tastes into their daily life.
China is incomprehensibly large. Though many consumers still lack the income to purchase imports, millions join the middle class every year.	China is incomprehensibly large. Regional differences in culture and taste can be quite stark. Promotions with limited budgets must target specific groups.
The Chinese market often moves en-masse. If a product becomes trendy, sales can skyrocket overnight.	If a product is successful, it is likely to be counterfeited or imitated.

Section II. Exporter Business Tips

II.1. Local Business Customs

China possesses an ancient and vibrant mercantile culture of its own. Although this culture values efficiency, value and profit, there are important differences from western business culture. Key features include: a) respect for age and hierarchical position, b) the importance of personal relationships, c) group orientation and d) the concept of face. Food is a key component of Chinese culture, and this extends to business culture: working lunches and dinners are an important part of doing business in China. These events help to build those all-important personal relationships, provide information not available in formal business meetings, and are an opportunity to establish face with your business contacts. To help U.S. exporters on their travels in China, FAS has prepared several reports outlining the key points: [Chinese Business Etiquette \(CH2828\)](#) and [Business Travel in China \(CH2829\)](#).

These reports are available on the FAS website at www.fas.usda.gov (look under 'Attache Reports').

II.2. Consumer Tastes

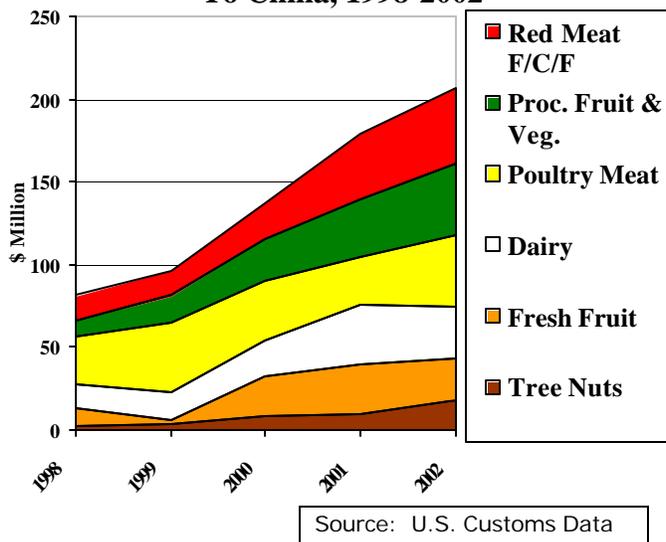
Tastes vary widely from place to place in China, and are constantly evolving. As a general rule, Chinese tastes favor Asian products, particularly those with a strong similarity to Chinese foods or heavily influenced by China. Nonetheless, consumers are willing to experiment with new tastes. Key regional distinctions include North and Northeast China (Beijing and north), where dishes tend to be salty; East China (centered on Shanghai) where the taste is sweet and spicy dishes are unpopular; Central China, famous for hot and spicy food; and South China, famous for delicate tastes and an appetite for the exotic. Keep in mind, though, that consumers in any of these places may be willing to experiment with new tastes.

In addition to regional patterns, there are some overall preferences shared by most Chinese consumers:

- Chinese prefer fresh meats and produce to canned or processed ones. Many buy fish or fowl live to be butchered on the spot.
- Consumers prefer small-sized packages to 'economy' sizes, even though the unit cost may be higher.
- In the case of snacks, candies or breakfast cereals, Chinese consumers like to see the actual product inside the package. It is a good idea to include a transparent 'window' on the package. This goes double for new-to-market products.
- The attractiveness of the package is important. Size, colors and design are all taken into consideration.
- Chinese buyers are attracted to established brand names, which are seen as a guarantee of authenticity and superior quality.

Before jumping into the Chinese market, U.S. exporters are advised to invest in targeted market research and taste testing. In a country the size of China, it is absolutely critical to identify a specific target group of consumers, and confirm the product's appeal to that group. For example, one might target new mothers in the Shanghai area, or, alternatively, teens from affluent families in Guangzhou. Whichever one chooses to target, both the product and the approach will be entirely different. Failure to take the preferences of Chinese consumers into account is a common reason for the failure of new products.

**Top U.S. Consumer Food Exports
To China, 1998-2002**



II.3. Regulatory Framework

Over the past few years, the Chinese government has published a host of regulations governing standards and labeling for food products. Enforcement of these regulations is also becoming more rigorous. Although reputable distributors often deal with these issues on the exporter's behalf, exporters with a major commitment to the China market are advised to study the relevant laws carefully and ensure that they are in compliance.

To help U.S. exporters understand these regulations, FAS has prepared a series of unofficial translations. Collectively, these reports are called the **China Food and Agricultural Import Regulations and Standards Report** (or **China FAIRS Report**). The translations available are listed in the FAIRS Report Working Index, which is posted on the FAS website (www.fas.usda.gov).

Section III. Market Sector Structure and Trends

III.1. Food Retail

Growth in retail sales has been driven by the rapid development of food retail chains across China. Supermarket chains are now present in virtually every city in China, while hypermarkets exist in most large cities. Of particular interest to exporters is the rapid growth of foreign-invested hypermarket chains such as Wal-Mart, Carrefour and Metro, which are aggressive in seeking out and promoting high-margin imported products. These foreign-invested stores are also popular venues for buying food to be given as gifts. Packaging is critical in this particular niche, and many exporters and/or distributors have developed special gift package versions of their products.

In response to the growth of foreign-invested retailers, Chinese retail chains are consolidating, and now have nationwide reach. Although the recent consolidation of China's two largest food retail chains, Lianhua and Hualian, created an entity several times larger than any other chain operating in China, the two retailers appear to be continuing to operate independently. Domestically-owned hypermarkets are a good prospect for imported products, but loose management of supermarket chains continues to make that sector a poor prospect for imports. Retail sales have also been boosted by the rapid growth of convenience store chains, particularly in East China. Shanghai alone is home to over 2,500 convenience stores, mostly domestic chains. Foreign-invested convenience stores have established a significant presence in Guangzhou, and the convenience store format is now making an appearance in Beijing. Refrigerator and freezer cases are now routinely available in hypermarkets, supermarkets and convenience stores, and microwave ovens are common in convenience stores.

Retail growth is likely to get an additional boost in 2005, when China will permit full foreign ownership of businesses (current rules require foreign-invested businesses to be joint ventures). Wal-Mart is already rumored to have plans to open stores in Shanghai and other cities in 2005, taking advantage of the regulatory change. Other important trends in the retail sector include the rapid increase in personal ownership of refrigerators, freezers and microwave ovens, which has boosted sales of frozen and heat-and-eat products. Hypermarkets and convenience stores also now offer a wide variety of ready-to-eat foods, including box lunches and rotisserie chicken. For more detail on China's retail food sector, please refer to FAS/China's **Food Retail Sector** reports, available on the FAS website at www.fas.usda.gov.

III.2. Hotel, Restaurant and Institutional (HRI)

HRI is one of the most dynamic sectors of the economy, as seen in the rapid growth of revenue for the catering industry. This sector covers the entire spectrum, from roadside stands to massive cafeterias to Michelin Guide-rated restaurants. The restaurant sector dominates HRI, accounting for roughly 60% of HRI revenues. Privately owned restaurants account for over 50% of the total, and helps to account for the dynamism of this particular sector. Growth is supported by the emergence of a growing number of affluent, two-income families that do not have the time to prepare meals at home, as well as long-standing traditions of hospitality.

HRI is a key player in introducing imported foods. High-end restaurants and hotels are less constrained by price considerations and more interested in presenting dishes and products that are unique. If successful, their efforts are likely to be copied by other restaurants, bringing them closer to mainstream middle-class consumers. Another important trend is the recent emergence of medium to high-end restaurant chains. Like other high-end restaurants, these are interested in offering consumers something different and unique, but unlike them, if a product is successful, they can purchase in the quantities necessary to bring unit costs down. This development holds a great deal of promise, as Chinese consumers view restaurant chains as a guarantee of quality in a largely unregulated industry. Though still in its infancy, this trend may become an important factor for imports.

It is important to note, however, that many parts of the HRI sector are not strong candidates for imported foods. Catering operations that run cafeterias and provide box lunches, as well as small family-owned restaurants, account for a large portion of the industry, and are extremely price-sensitive. For example, lunch box manufacturers typically aim for a production cost of \$0.75 or less, making them a poor candidate for most imported foods. Once again, exporters are advised to research the market and pick their targets carefully. For a more analysis on China's food processing sector, please refer to FAS/China's **HRI Sector** reports, available on the FAS website at www.fas.usda.gov.

III.3. Food Processing

The food processing industry is another of the fastest growing segments in the Chinese economy, with the China Food Industry Association citing annual growth of 10-12%. Still in its infancy, the recent development of this sector also makes it is one of the most modern. Poor regulation, however, makes it difficult to determine the exact size of the industry: the most recent figure, from 2000, is \$102.7 billion. China's National Statistical Bureau estimates growth for the first seven months of 2003 at 18.16%, for a value of \$82.96 billion. Processing is dominated by primary processing at 54% of the total value, and by beverage production at 24% of the total. Food manufacturing accounts for only 22% of the total, indicating that the industry has a good deal of room for future growth. Currently, only 30% of China's food consumption is processed, as compared to 86% in more developed countries. According to Chinese officials, the main barrier to further development of this sector is China's underdeveloped agricultural production and distribution systems. At present, food safety is a key concern for the industry, following a series of poisoning and contamination incidents in recent years.

The food processing sector provides limited but growing opportunities for U.S. exporters. The industry is concentrated primarily in Guangdong province, though much of the current growth is taking place further north. Although inputs are primarily domestic, many processors are seeking new ingredients to help distinguish their products from competitors. U.S. products that have been particularly successful in this area include nuts (almonds, pistachios, and more recently pecans), dried fruit (especially prunes), flavorings and sauces

(blueberry flavors have become popular recently) and dairy ingredients and supplements. Frozen and dehydrated potato products continue to be successful, due largely to the lack of local equivalents. For a more in-depth analysis of the food processing sector, please refer to FAS/China's **Food Processing Sector** reports, available on the FAS website at www.fas.usda.gov.

Section IV. Best High-Value Product Prospects

Product Category	2000 Market Size	2000 Imports (\$million)	5-Yr Avg Import Growth	Import Tariff Rate	Key Constraints on Market Development
Red Meats Fr/Ch/Fz	NA	156	66%	14.2 – 29%	Competition from other import sources (Australia), limited capacity for handling fresh imports, growing competition from domestic product.
Processed Fr. & Veg.	NA	134	46%	5 – 31%	Competition from Asian countries with similar tastes; rapid development of domestic industry.
Poultry Meat	NA	481	53%	20% (specific duties are applied to broiler cuts)	Import quotas, sanitary barriers, competition from other exporting countries.
Dairy Products	NA	260	40%	6 – 26%	Competition from New Zealand and Australia.
Fresh Fruit	NA	318	12.5%	13.6 – 33%	Competition from domestic products. U.S.' advantage is in special varieties.
Tree Nuts	NA	23	39%	0 – 26%	Competition from low-price, low quality exporters; counterfeit products.
Fruit & Veg. Juices	NA	14	32%	7.5 – 31%	Competition from other exporting countries.
Breakfast Cereals	NA	3	10%	25 – 30%	Breakfast cereals are still a novelty in China.
Salmon	NA	25	61%	10 – 17.2%	Cost and competition from other exporters, esp. Norway.
Crustaceans	NA	216	17%	5 – 21.7%	Limited supplies.
Note: All data are derived from U.N. Trade Data. Commodity groupings are based on FAS BICO report categories.					

Section V. Key Contacts and Further Information

For a list of Chinese government regulatory agencies in Beijing, Shanghai and Guangzhou, please see FAS/China report number CH1068, available on the FAS website at www.fas.usda.gov.

For a list of importers and distributors, please see FAS/China report number CH1068, also available on the FAS website.

For further information, please contact the appropriate ATO office. FAS/China has ATOs in Beijing, Shanghai and Guangzhou. E-mail and fax numbers are as follows:

ATO Beijing: ATOBerjing@usda.gov, (8610) 8529-9962

ATO Shanghai: ATOShanghai@usda.gov, (8621) 6279-8336

ATO Guangzhou: ATOGuangzhou@usda.gov, (8620) 8667-0703

Appendix 1. Statistics

Table A. Key Trade and Demographic Information

Agricultural Imports From All Countries (\$mil)/US Market Share (%)	10,523/25%
Consumer Food Imports From All Countries (\$mil)/US Market Share (%)	2,090/32%
Edible Fishery Imports from All Countries (\$mil)/US Market Share (%)	1,337/8%
Total Population (millions)/Annual Growth Rate (%)	1,284/0.6%
Urban Population (millions)/Annual Growth Rate (%)	502/4%
Number of Major Metropolitan Areas	171
Size of Middle Class (Millions)/Growth Rate (%)	NA
Per Capita Gross Domestic Product (US Dollars)	987
Unemployment Rate	4.0
Per Capita Food Expenditures (urban residents only; rural exp. NA)	275
Percent of Female Population Employed	NA
Exchange Rate	8.3

Table B. Consumer Food and Edible Fishery Product Imports

China (Peoples Republic of) Imports of Agriculture, Fish & Forestry Products
(In Millions of Dollars)

	1999	2000	2001
CONSUMER-ORIENTED AGRICULTURAL TOTAL	1504	1960	2120
Snack Foods (Excl. Nuts)	43	64	68
Breakfast Cereals & Pancake Mix	3	3	3
Red Meats, Fresh/Chilled/Frozen	88	156	154
Red Meats, Prepared/Preserved	6	8	8
Poultry Meat	410	481	444
Dairy Products (Excl. Cheese)	197	260	273
Cheese	3	4	4
Eggs & Products	1	10	7
Fresh Fruit	226	318	287
Fresh Vegetables	6	4	3
Processed Fruit & Vegetables	110	134	276
Fruit & Vegetable Juices	13	14	22
Tree Nuts	21	23	52
Wine & Beer	98	121	93
Nursery Products & Cut Flowers	17	21	22
Pet Foods (Dog & Cat Food)	1	1	2
Other Consumer-Oriented Products	261	338	402
FISH & SEAFOOD PRODUCTS	881	1210	1319
Salmon	16	25	56
Crustaceans	124	216	194
Groundfish & Flatfish	310	410	507
Molluscs	96	177	177
Other Fishery Products	334	381	385
AGRICULTURAL PRODUCTS TOTAL	7146	9961	10546

Source: United Nations Statistics Division

Table C. Top 15 Suppliers of Consumer Foods and Edible Fishery Products

CONSUMER-ORIENTED AGRICULTURAL TOTAL - 400

	Reporting: China (Peoples Republic of) - Top 15 Ranking Import		
	1999	2000	2001
	Value	Value	Value
	1000\$	1000\$	1000\$
United States	470353	635982	670675
Thailand	91330	118154	239779
New Zealand	91231	145587	150790
Australia	41282	63897	82505
Japan	68438	88635	82150
Canada	45451	70530	76758
Netherlands	90153	128755	75395
France	41401	78031	70162
Philippines	49659	77112	66554
Vietnam	12273	16688	65517
Ireland	19798	35119	45734
Denmark	25282	39934	42370
Chile	10119	25147	31616
Germany	16251	20946	29482
Indonesia	45276	24869	28224
Other	372556	378268	332123
World	1490913	1947689	2089873

FISH & SEAFOOD PRODUCTS - 700

	Reporting: China (Peoples Republic of) - Top 15 Ranking Import		
	1999	2000	2001
	Value	Value	Value
	1000\$	1000\$	1000\$
Russian Federation	257727	345895	487916
Japan	185010	136583	106883
United States	55040	79753	100456
India	12191	87157	77886
Canada	35055	77207	64335
Norway	19468	42550	63710
Korea, North	5757	4056	48019
Korea, Republic of	35390	67019	44796
Thailand	10239	41787	27364
New Zealand	12149	26448	26977
Spain	17405	28042	25989
Netherlands	6094	7223	24986
Indonesia	4938	23182	24583
Australia	9450	13848	18763
Taiwan (Estimated)	8775	26983	16532
Other	214807	209324	178234
World	889508	1217062	1337435

Source: United Nations Statistics Division

